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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF UTILITY SOURCE,)
L.L.C. FOR A DETERMINATION OF)
THE CURRENT FAIR VALUE OF ITS)
UTILITY PROPERTY AND FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES AND)
CHARGES FOR UTILITY SERVICES)

WS-04235A-06-0303

**NOTICE OF FILING
SUPPLEMENTAL REJOINDER
TESTIMONY**

Utility Source, L.L.C. by and through undersigned counsel, hereby provides Notice of Filing of the Supplemental Rejoinder Testimony of Lonnie McCleve regarding the customer comments at the March 19, 2007 Public Comment meeting held in Flagstaff. The Company only received the Transcript of that meeting on March 30, 2007 and provides these responses thereto.

Respectfully submitted this 6th day of April 2007.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By [Signature]
Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Utility Source, L.L.C.

Original and ten copies of the foregoing
filed this 6th day of April 2007,
with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
APR -6 2007

| | |
|-------------|-----------|
| DOCKETED BY | <u>NR</u> |
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1 A copy of the foregoing filed
2 this 29 day of April, 2007, to:

3 Hearing Division
4 Arizona Corporation Commission
5 1200 W. Washington
6 Phoenix, Arizona 85007

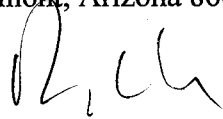
7 Utilities Division
8 Arizona Corporation Commission
9 1200 West Washington
10 Phoenix, Arizona 85007

11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Ponderosa Fire District
16 c/o Starr Lamphere, Board Chairman
17 P.O. Box 16359
18 Bellemont, Arizona 86015

19 David Hitesman
20 4661 N Bellemont
21 Bellemont, Arizona 86015

22 Dennis Jones
23 11573 W Cove Crest
24 Bellemont, Arizona 86015



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-06-0303

SUPPLEMENTAL REJOINDER TESTIMONY OF
LONNIE MCCLEVE
FILED APRIL 6, 2007

1 **Q. Would you please your name and business address?**

2 A. My name is Lonnie McCleve. My business address is 721 San Pedro,
3 Gilbert, Arizona 85234.

4
5 **Q. What is your relationship to Utility Source, LLC**

6 A. I am an owner and officer of the company.

7 **Q. Are you familiar with the subject Application, and have you filed**
8 **testimony in this proceeding?**

9
10 A. I am familiar with the Application, but have not previously filed testimony
11 in this matter.

12 **Q. Are you aware that the Commission held a Public Comment meeting on**
13 **this Application in Flagstaff on March 19, 2007?**

14
15 A. Yes I am. I was not in attendance, although a Company representative was
16 there during the entire meeting. I have had an opportunity to review the official
17 transcript of that meeting.

18 **Q. Is it your opinion that based upon those un-sworn comments there is**
19 **substantial misunderstanding of the Company's operations and its**
20 **relationship to the developer and homeowners association?**

21
22 A. I believe that to be true, and I also believe there were some misstatements of
23 fact made by some of the individuals.

24
25 **Q. Let me ask about certain of the issues that I believe the Commission**
26 **may be concerned with, roughly in the order they were raised at the meeting.**

1 **First, was an allegation of unauthorized water use. Would you please speak to**
2 **that allegation?**

3 A. Yes. The Company is using water from its system for use in the Deep Well #4
4 drilling operation. The delivery point for that water is in the proximity of the mobile
5 home park. This may have caused certain observers to believe that the mobile home park
6 was receiving water through other than normal metered service. It is not. The water used
7 for construction of a well is for the benefit of Utility Source and the water used will be
8 appropriately accounted for by Utility Source.

9 **Q. There was also an allegation that certain family members or employees were**
10 **not being charged for their utility services. Was that statement correct?**

11 A. Absolutely not. This is a false accusation. We are aware that this would be a
12 sensitive issue both for the Commission and other customers and would never consider
13 such a practice. All customers are charged and pay our tariffed charges for both water and
14 sewer use.

15 **Q. Will you please briefly summarize your meter reading and billing**
16 **procedures?**

17 A. Yes. Meters are read manually. Most meters are read every month. There may be
18 anywhere from two to five meters that can not be read on certain months due to issues
19 beyond our control, such as standing water over meter preventing visual read or vehicles
20 being parked on top of meter boxes. You should be aware that every time we have rain or
21 snow melt, it is possible that some of the meters boxes fill with mud or water so a read
22 could be delayed. Those bills are then estimated in accordance with the Commission's
23 24 25 26

1 Rules and Regulations. When a homeowner calls about their bill we research the problem
2 and thereafter call them. Sometimes it involves our on-site person. If there is a glitch in
3 the computer, we call our computer representative. Depending on the question, we do not
4 always determine the answers that day. We are not familiar with the particulars of all
5 comments at the meeting, but one customer stated his bill was significantly over the
6 normal bill. Our Office Manager had the on-site person re-read the meter and that
7 customer was correct; the reading was off by 10,000 gallons. By his next bill it had been
8 corrected. Another customer suggested we had mis-read his meter, but we re-read that
9 meter and it was right on for his usage. Another customer who commented is a
10 homeowner who moved in after a tenant left owing the Company, and a disconnect notice
11 was put on the door. The new homeowner had not called to set up service. Therefore, we
12 had no way of knowing someone new was living there. We just knew that water was
13 being used. This too was corrected.

14
15
16 **Q. Others commented on the Company's responses to customer telephone**
17 **inquiries. Will you please respond?**

18 A. Our toll free number is on each bill and customers regularly use it. When not in
19 her office, our Office Manager transfers calls from work to her mobile and speaks with
20 several homeowners a day, after hours (including 2:00 a.m.), and on weekends. We
21 believe the vast majority of these calls are resolved satisfactorily. Our operations person
22 lives on-site and is often aware of the problem and in the process of correcting it even
23 before the Office Manager calls him.
24

25 **Q. There was also a question regarding water trucks hauling water offsite, and**
26

1 **whether or not those customers are being billed?**

2 A. There are currently two water haulers, Larry Wright Water Hauler, and Pilot. Pilot
3 is only hauling water through the construction phase of their truck stop. When it is
4 completed they will be tapped into our main line with a regular meter. Larry Wright
5 mainly hauls to residential customers. Both haulers are charged the tariffed rate per 1,000
6 gallons used.
7

8 **Q. An additional misunderstanding appeared to be regarding the relationship**
9 **between the Company, the developer of property, and that homeowners association,**
10 **and possible misdealings among those parties. Would you please explain for the**
11 **Commission the relationship of those parties and the dealings between among them?**

12 A. Utility Source, LLC, Greenfield Land Development and Flagstaff Meadows
13 Property Owner's Association are separate entities and have been from their inception.
14 Each has its own bylaws and operating agreement. Moreover, each entity has its own
15 bank account for depositing revenues and paying bills. Income and expenses are
16 accounted for separately for each of these entities on their own set of books. Utility
17 Source possesses a bank account for depositing water and wastewater revenues. Bills
18 associated with the operation of the utility company are paid exclusively through this
19 account. Utility Source is a public service company and is obviously regulated by the
20 Commission. It has been issued a Federal Identification Number by the Internal Revenue
21 Service. It is required to file annual reports with both the Commission's Utility Division
22 and the Arizona Department of Revenue. These report income and expenses as well as
23 the Company's assets and liabilities. Like all utility companies, Utility Source LLC is
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25
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1 subject to close scrutiny by utility regulatory agencies. It is submitted that the Company
2 just went through a microscopic review of all plant, revenues and expenses by the
3 Commission Staff. No suggestion of any inappropriate transaction was made by Staff.
4 Utility Source is also required to file annual corporate income tax returns, both state and
5 federal. The utility company has a part time office manager that handles customer service
6 matters. We have a monthly contract with an office assistant who is responsible for
7 creating monthly billings based on the meter readings. A computer consultant provides
8 regular hardware maintenance and supervises billing software functions. An independent
9 accountant performs all accounting duties and is responsible for reporting compliance.
10 Utility Source utilizes three separate Certified Public Accounting firms for tax filings, and
11 regulatory execution. Utility Source contracts with firms that provide such services as
12 water testing, wastewater testing, and sludge removal. We also contract with Contract
13 Wastewater Operator (CWO), as the ADEQ certified Operator, and as the on-site operator
14 for the water and wastewater treatment plants. CWO employs Jeremy McCaleb who
15 assists with these responsibilities. Other tasks completed by Mr. McCaleb include
16 monthly meter reading as well as being available to customers for service issues.
17 Fortunately, he resides in Flagstaff Meadows and is on call 24 hours a day.
18
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21 Greenfield Land Development is a partnership which possesses its own bank
22 account for the purpose of depositing income received and the paying of bills associated
23 with the operation of its development projects. Mary Ann Parry manages the day to day
24 operations for Greenfield Land Development. Also engaged in the Company's operations
25 is an independent accountant who administers all accounting functions. A Certified
26

1 Public Accountant prepares annual federal and state tax returns. Greenfield did initially
2 develop the area, but has sold most of the property to third-party builders.

3 Flagstaff Meadows Property Owners Association is registered as a non-profit
4 corporation with the Arizona Corporation Commission, and owned by the property
5 owners. As with virtually all homeowners associations, it was formed by the developers,
6 and remained in the developers control until the majority of the homes we sold. That has
7 now occurred, and the control is being "transitioned" to the residents. The Association
8 has its own bank account through which all dues collected are deposited. It pays for bills
9 associated with operation through this bank account. Mary Ann Parry has been serving as
10 the office manager for the Property Owners Association. Her responsibilities included,
11 but were not limited to, creating invoices for dues, collection of funds, payables, and other
12 secretarial duties are required by daily operation. Upon completion of the subdivision
13 sales, and in accordance with the CC&R'S and Bylaws, a meeting was recently held to
14 elect new board members who will be responsible for all the affairs of the Association.
15 Unfortunately, very little interest was shown in those positions, but elections were held
16 and seven members were elected to the new board. A meeting is scheduled for April 19,
17 2007 to further the implementation of the new board members duties and responsibilities
18 and to plan for the New Year.

19
20
21 **Q. It was indirectly suggested that either the Association or Utility Source might**
22 **be paying for landscaping or other services of shareholders or shareholder's family**
23 **members. Have any such services been provided at utility customer or association**
24 **member expense?**
25
26

1 A. Absolutely not. Because there are a limited number of service companies
2 available in Bellemont, I cannot tell you that some of the Company's subcontractors have
3 not done work for individuals within the community, but I can tell you that those services
4 were not paid for by the Company or the Association.

5
6 **Q. One customer questioned water quality reports. Are those filed and available**
7 **for customer review?**

8 A. Yes. All required water quantity and quality have been filed with ADWR and
9 ADEQ, respectively. The Company will be preparing a Consumer Confidence Report as
10 required by ADEQ and that report will be distributed to all the customers. It will have all
11 data in it. We do not recall being previously asked for these reports by any customer, the
12 Company is doing everything required by the controlling regulatory agencies.

13
14 **Q. Are you aware of the suggested change in the associations CC&R's pertaining**
15 **to rainwater?**

16 A. No, to our knowledge the Association has never had a request to approve a system
17 wherein rainwater was captured and to be reused for landscaping. This is clearly not a
18 water company issue. I expect the POA would be open to that type of proposal. That
19 proposal would be consistent with the policy of conservation which is incorporated in the
20 CC&R's under Section 4.3 A. As stated, the developers are in the process of turning over
21 control of the property owners association to the new board, and if any such proposals
22 were submitted, I expect they would be reviewed and decided by the new board.

23
24 **Q. Another subject raised at the Public Comment meeting has to do with water**
25 **losses.**
26

1 A. Yes. The Commission's engineering report in this proceeding indicates that the
2 Company is in compliance with all ADEQ requirements and that the water laws is 5.8%,
3 well within the acceptable limits.

4 **Q. The final question I have pertains to outages. Have there been frequent or**
5 **extended outages of service to any portion of your system?**
6

7 A. No. We have been fortunate in that we have not experienced any such problems.
8 We believe the system is well-designed, and it is all relatively new. Therefore, we would
9 not anticipate any such problems. There certainly may have been short-term outages for
10 normal maintenance or tapping of a main, but that would be in a relatively small area of
11 the system and for a relatively short period of time.

12 **Q. Mr. McCleve, is it your opinion that the Company is providing adequate**
13 **quantities and good quantities water to all customers within its system?**
14

15 A. Absolutely. We understand the customer's frustration with a proposed increase in
16 the water and wastewater rates. We believe the Company has requested increases on the
17 lower side of the range of reasonableness for the services it is providing. The Company's
18 proposed rates are not dissimilar to other non-metropolitan private water companies in the
19 state. We intend on continuing to provide the highest levels of service to our customers.

20 **Q. Mr. McCleve, you testified that you were not in attendance at the Public**
21 **Comment meeting, but I understand the Company was not given an opportunity to**
22 **respond to those comments at that time. Has the Company made any effort to**
23 **respond to those individual comments?**
24

25 A. Yes, we thought it would be appropriate if we would provide a copy of this
26

1 Rejoinder Testimony to each of those individuals. I have had our staff mail a copy to each
2 customer who identified him or herself at the meeting at the billing address we have for
3 that individual. We are certainly hopeful of maintaining an open line of communication
4 with our neighbors and customers, whether it be in the formality of a rate proceeding or on
5 a day-to-day basis.
6

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.
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